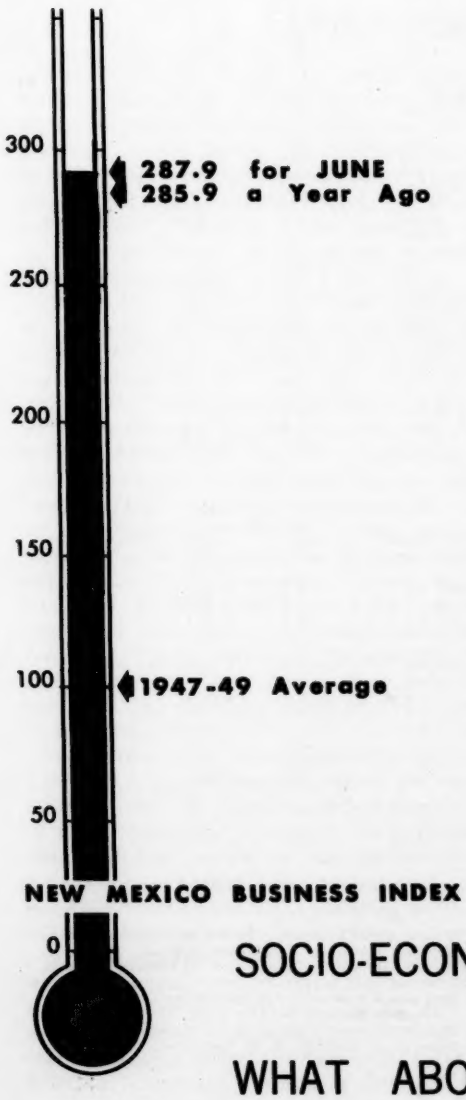
AUGUST 1961

New Mexico BUSINESS



A condition of stability characterized business activity in the State between May and June. The current level of the Index of Business Activity does not differ so much as 1 per cent from that for the previous month; also, it is almost at precisely the same point as during June 1960. The current economic stability indicated by our index is considered a welcome breather, after an extended period of violent jumps, both up and down.

Although the month-to-month gain in employment was small, the total number of persons at work in New Mexico during June was greater than ever before. However, preliminary data indicate a decline in employment of 0.4 per cent for July. It is significant to note that total employment is above year-ago levels in spite of the fact that only three of the eight industry groups report gains over June 1960 totals. In terms of year-to-year comparisons, government employment is particularly strong. Interestingly enough, the strength of government employment has come from state and local sectors rather than from the federal sector. Although the percentage gains of service employment have not been so large as those of government, June employment in services was at a record high.

An even better situation can be reported for the trade category: the June figure matches the previous trade high, recorded last December, while the preliminary July figure forecasts a new high.

Paradoxical as it may seem in the face of high-level employment, unemployment was considerably above year-ago levels. But total June unemployment was not nearly so high as that which existed earlier in 1961.

SOCIO-ECONOMIC INFLUENCES UPON GOVERNMENT SPENDING

WHAT ABOUT THE NATIONAL RECOVERY?

Business Activity in New Mexico

	June 1961	Year Earlier June 1960	Per Cent Change June 1961 from May 1961	Per Cent Change June 1961 from June 1960	INDEX June 1961 (Average Month 1947-49 = 100)
Index of Business Activity (1947-49 = 100)	287.9	285.9	- 0.5	+ 0.7	287.9
Sales data: Not available. See March 1959 issue of NEW MEXICO BUSINESS					
*Life Insurance Sales (1,000s)	$ 24,132	$ 26,047	- 10.2	- 7.4	688.1
*Bank Debits, 34 banks (1,000s)	513,407	507,665	+ 1.9	+ 1.1	325.8[a]
Bank Loans and Discounts, 34 banks (1,000s)	48,199	45,858	- 9.3	+ 5.1	325.3[a]
Demand Deposits, 34 banks (1,000s)	339,509	326,759	+ 1.0	+ 3.9	183.8[a]
Time Deposits, 34 banks (1,000s)	152,334	136,171	+ 0.6	+ 11.9	432.8[a]
Business Failure Liabilities (1,000s)[b]	560	72	- 39.3	+671.7	1,954.6
Wage Workers in Nonagricultural Establishments	243,100	241,600	+ 1.7	+ 0.6	183.3
in Mining	20,200	20,800	0.0	- 2.9	166.1
in Contract Construction	19,000	19,600	+ 4.4	- 3.1	150.6
*in Manufacturing	16,700	17,100	+ 4.4	- 2.3	194.8
in Transportation and Utilities	19,700	20,400	+ 1.0	- 3.4	123.2
in Trade	51,800	50,900	+ 2.4	+ 1.8	178.3
in Finance, Insurance, and Real Estate	9,600	9,600	+ 1.1	0.0	308.0
in Services and Miscellaneous	40,000	39,000	+ 3.4	+ 2.6	184.2
in Government	66,100	64,200	- 0.5	+ 3.0	224.8
Number of Insured Unemployed	9,045	5,217	- 14.5	+ 73.4	--
Rate of Unemployment (per cent of labor force)	4.56	2.67	- 15.4	+ 70.8	293.5
Construction Contracts Awarded (value in 1,000s)	$ 14,558	$ 44,463	- 43.8	- 67.3	--
Residential (value in 1,000s)	$ 6,372	$ 10,661	- 28.2	- 40.2	--
Number of Permits	481	702	- 5.5	- 31.5	--
Floor Area (1,000 sq ft)	593	890	- 12.9	- 33.4	--
Nonresidential (value in 1,000s)	$ 5,841	$ 5,126	- 20.2	+ 13.9	--
Floor Area (1,000 sq ft)	412	352	+ 58.5	+ 17.0	--
Heavy Engineering (value in 1,000s)	$ 2,345	$ 28,676	- 75.9	- 91.8	--
*Petroleum Production (1,000s of bbls)	9,107	8,393	- 3.7	+ 8.5	240.1
Natural Gas Production (millions of cu ft)	57,967	61,034	- 9.1	- 5.0	360.4
*Electric Power Production (1,000s of kwhs)	305,557	265,399	+ 4.9	+ 15.1	346.3
*Index of Total Metallics Production (1947-49 = 100)	79.6	50.3	- 20.3	+ 58.3	79.6
Mine Production - Copper (1,000s of lbs)	9,604	6,120	- 27.1	+ 56.9	90.9
Mine Production - Lead (1,000s of lbs)	510	396	+ 2.8	+ 28.8	49.1
Mine Production - Zinc (1,000s of lbs)	4,156	2,268	- 5.7	+ 83.2	65.1
*Mine Production - Potash (1,000s of tons)	1,132	1,170	- 19.4	- 3.2	282.8
Index of All Farm Prices (1947-49 = 100)	96.2	97.9	- 2.8	- 1.7	96.2
Index of Livestock Prices	100.3	103.4	- 3.6	- 3.0	100.3
Index of Crop Prices	92.9	92.1	- 0.4	+ 0.9	92.9
Receipts from All Farm Marketings (1,000s)	$ 11,584	$ 10,234	+ 44.9	+ 13.2	144.8
Livestock and Products	6,062	5,967	+ 4.6	+ 1.6	101.7
Crops	5,522	4,267	+141.4	+ 29.4	253.2

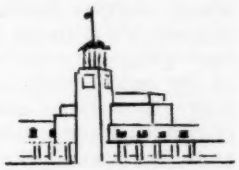
	July 1961	Year Earlier July 1960	Per Cent Change July 1961 from June 1961	Per Cent Change July 1961 from July 1960	INDEX July 1961 (Average Month 1947-49 = 100)
Bank Debits, 34 banks (1,000s)	$502,438	$475,365	- 2.1	+ 5.7	319.0[a]
Bank Loans and Discounts, 34 banks (1,000s)	51,783	44,833	+ 7.4	+ 15.5	349.3[a]
Demand Deposits, 34 banks (1,000s)	338,881	327,132	- 0.2	+ 3.6	183.2[a]
Time Deposits, 34 banks (1,000s)	154,526	134,688	+ 1.4	+ 14.7	438.9[a]
Wage Workers in Nonagricultural Establishments	242,200	239,300	- 0.4	+ 1.2	182.6
Number of Insured Unemployed	8,791	5,609	- 2.8	+ 56.7	--
Rate of Unemployment (per cent of labor force)	4.40	2.86	- 3.5	+ 53.8	282.8
*Building Permits, total 18 cities (1,000s)	$ 5,397	$ 6,689	- 37.7	- 19.3	187.7[a]
Residential	2,885	4,647	- 9.4	- 37.9	161.8[a]
Nonresidential	1,326	1,297	- 69.5	+ 2.2	181.7[a]
Other	1,186	745	+ 5.4	+ 59.3	326.8[a]
Index of All Farm Prices (1947-49 = 100)	97.2	96.2	+ 1.0	+ 1.0	97.2
Index of Livestock Prices	102.0	100.7	+ 1.7	+ 1.3	102.0
Index of Crop Prices	93.3	92.9	+ 0.4	+ 0.4	93.3

*Indexes for these items are used to compute the Index of Business Activity.
[a]Although the number of reporting units changes, the indexes for these items are comparable with indexes for preceding months.
[b]The figures in this series are based on the average of three months' data.

Sources:
Retail Sales Data: N. M. Bureau of Revenue
Potash Production: N. M. Bureau of Revenue
Petroleum and Natural Gas Production: N. M. Oil Conservation Commission
Life Insurance Sales (New Ordinary): Life Insurance Agency Management Association
Wage Workers and Unemployment: N. M. Employment Security Commission and U.S. Department of Labor
Electric Power Production: Federal Power Commission
Metallics Production: U.S. Bureau of Mines
Farm Prices and Marketings: U.S. Agricultural Marketing Service
Bank Data (all series) and Building Permits: Bureau of Business Research, UNM
Business Failure Liabilities: Dun & Bradstreet, Inc.
Construction Contracts: F. W. Dodge Corporation

The Effects of New Mexico's Social and Economic Structure upon Governmental Expenditures

Arthur A. Blumenfeld



(Third in a Series)

I

POPULATION AND PRICE INFLUENCES

Especially since 1946, state and local governments throughout the country have been encountering serious financial difficulties that became genuinely acute during the 'Fifties and well may become more severe during the present decade. New Mexico's governmental units shared such nation-wide problems in the past and are likely to continue both to share in and to contribute to those of the future.

These fiscal problems of state and local governments long ago awakened the interest of economists, political scientists, and public-administration experts, interest that had lain dormant during the 1930s and early 1940s, when national crises were the prime concern. Coupled with this awakened interest was a growing sense of general public concern regarding the same problems. This virtually simultaneous public and official reaction resulted in the initiation of a great number of research projects designed to explain and to help solve a variety of fiscal difficulties. During recent years the results of such research have been published with increasing frequency; and, although the specific details of the various reports differ, they are similar in terms of the analyses performed and the variety of solutions offered.

The similarity of approach pursued in these studies is understandable when we examine, at least briefly, the motives underlying the initiation of such research. Possibly the principal motive has been the desire to find additional revenue, a desire based upon a rather general feeling that existing sources were not yielding sufficient revenues--either because enforcement has been inadequate or because the sources themselves have been inadequate--to provide the level of services demanded by the citizens in an era of rising prices, rapidly increasing population, and growing acceptance of broader governmental responsibilities. Another frequently present motivation has been the desire to eliminate from the distribution of the tax burden apparent inequities which have developed over a period of meeting successive financial crises by enacting new taxes through alteration of the tax structure. A third motive underlying many studies has been the desire to evolve a revenue structure that not only would not hinder economic growth, but would actually encourage it, based upon the recognition that taxes are both a cost to business and the means of providing the public services essential to attracting business and encouraging its growth.

Because such motives as these have underlain most studies, such investigations, in the majority, have been concerned primarily with the revenue structure, particularly the tax part of the structure; and, most important, although not always explicitly stated, the basic premise of most studies has been that present revenue sources are not adequate. Despite the importance of this assumption, however, there has been little or no attempt to test its validity.

Accepting the statement that "present revenue sources are inadequate," researchers have too often been primarily concerned with the characteristics of the revenue structure--particularly taxes--and have placed disproportionate emphasis on the questions of how and from where additional funds could be obtained. These studies usually did two things: (1) evaluated a particular revenue structure against the background of an established set of criteria (productivity, equity in the distribution of tax burdens, recognition of the rights and problems of the taxpayer, and the adaptability of the revenue structure to long- and short-range needs); and (2) recommended modifications of existing revenue structures to meet the aforementioned criteria, especially productivity.

It is essential to note that these studies were largely concerned with sources of additional funds and ways in which they could be obtained. Only

scant and passing attention has been given to defining what are "reasonable and adequate" levels of state- and local-government services and expenditures. Evaluations of particular programs were seldom, if ever, made in terms of (1) the public need, (2) the degree to which that need had been met in the past, (3) the effectiveness with which current funds were being spent, (4) the volume of additional funds required to satisfy the need entirely, and (5) estimates of the proportion of the public need that should be provided by a poor--or a rich--state. Nor has consideration often been given to additional analytical steps such as an appraisal of the desirability of shifting funds from one function to another.

In a democratically governed society, decisions concerning the level of governmental expenditures are made by the elected representatives of the people. Research directors have been wary of intruding upon prerogatives long reserved to administrative officials, city commissioners, or school board members; and these elected officials have not often been prepared to ask the professional researchers to evaluate the effectiveness with which they as officials are spending and allocating public monies. There has been at least one area of general agreement; virtually everyone concerned has usually seemed ready to accept the "fact" that expenditures must increase and that the existing revenue structure is unable to provide the funds needed. However, a willingness to analyze the existing situation thoroughly has not been so common.

It would seem unsound for elected officials to say, "We need more money; therefore, we are going to raise taxes," without first determining precisely what additional services and facilities are needed in government programs and then further determining what level of expenditure is necessary to satisfy the requirements. The importance of such analysis cannot be emphasized too often. In many states--including New Mexico--the practice with respect to established programs apparently has been to review past expenditures and adjust their upcoming budgets in light of anticipated revenues. With respect to proposed new programs, the practice appears to have been to establish budgets on the basis of the urgency of the pleas of the proponents of the new programs, taking into consideration revenues which can be made available either from existing sources or by providing some additional source. Infrequently, if ever, does it appear that there has been any attempt to make a real evaluation of the worth to the beneficiaries or to the general public of particular programs or services and to balance their prospective worth against their costs or to compare the relative worth to the general public of various programs in order to determine which and how much of each service can be justifiably provided, considering the financial capacity of the state and its citizens.

It is not the purpose of this statement to question the authority of elected officials--particularly the legislative body--to determine for what purposes and in what volume public money shall be spent. Instead, it emphasizes (1) their responsibility in this important area and (2) the urgent need for developing more effective techniques for making such determinations on the basis of real worth of various programs relative to each other and to the financial capacity of the state and its citizens. Properly directed research should be the surest path to providing such techniques, and it is the thesis of this article that studies of public finance should give as much emphasis to the development of such techniques as they give to alteration of the revenue structure.

When an examination of the problems of public finance is begun, the important first step should be, in this writer's opinion, the identification and examination of the basic factors, economic and social, creating the problems. Though we are not prepared at this time to isolate and study all the individual factors that have forced upward the volume of state and local expenditures in New Mexico, we can examine the changing characteristics of some basic situations. Little is added to the understanding of the complex difficulties of adequate public finance when we simply point out that (1) an expanding population and stepped-up economic activity automatically bring increased revenues and (2) that expenditures will almost automatically follow suit as a result of the tendency of governments to spend all available funds. While using up all such revenues seems a haphazard way of disbursing public funds, it is, nevertheless, probably an unavoidable procedure in view of the likelihood that in a growing community public revenues do not increase so fast as do public needs.

FACTORS AFFECTING EXPENDITURES

In this article the writer seeks to bring into focus some of the forces--aside from the availability of increased revenues--that have pushed expenditures upward in New Mexico. Three factors have significantly influenced that upward movement: (1) growth of the population, (2) rapidly rising price levels, and (3) broadening of scope and quality of public services. A fourth factor, which may or may not have exercised some influence, is the possibility of changes in the efficiency of handling public funds. In order to justify any substantial hope that we may be able to deal effectively with the problems of state finance, we need to distinguish among the effects upon public expenditures of each of these broad forces and then to evaluate each separately. By so distinguishing them we should be able to find

out to what ends we have been spending increased amounts of public money--whether to offset the effects of inflation, to keep up with population growth, or to increase the financial effort devoted to rendering public services, presumably with the intent of either broadening their scope or improving their quality. By thus separating what it has cost to keep up with inflation and population growth from the amounts spent for program improvement, we shall be in a better position to decide what has been done and what further should and can be done with respect to the factors over which we have some reasonable control--the scope and quality of public services.

Table I shows the method of arriving at the effects upon public expenditures during the period from 1950 to 1960 of each of the three broad forces enumerated above. Table II is essentially a restatement of the increased amounts of expenditures attributable to each force. Table I first compares (in the first five items) actual public expenditures in 1950 with those that would have been necessary in 1960 to provide the 1950 level of services to the 1960 population at 1960 prices. Next, the table compares the actual expenditures made in 1960 with those made in 1950 and shows how much of the difference (increase) can be attributed to each of the three broad influences.

TABLE I

ANALYSIS OF CHANGES IN STATE AND LOCAL GOVERNMENT EXPENDITURES
(Adjusted for price and population changes)
New Mexico, 1950 to 1960
(dollar figures in thousands)

Item	State Government	Local Government	State & Local Total
(1) 1950 Expenditures[a]	$ 81,422	$36,578	$118,000
(2) Ratio of population: 1950 to 1960[a]	139.4	139.4	139.4
(3) Expenditures required to provide 1950 level of government services to 1960 population	$113,502	$50,990	$164,492
(4) Ratio of 1960 dollars to 1950 dollars[b]	148.4	148.4	148.4
(5) Expenditures to provide 1950 level of government services to 1960 population at 1960 prices	$168,437	$75,669	$244,106
(6) 1960 Expenditures[a]	$211,059	$71,841	$282,900
(7) 1950 Expenditures[a]	81,422	36,578	118,000
(8) Increase: 1950 to 1960	129,637	35,263	164,900
(9) Expenditure increase caused by population growth (1950 to 1960)	32,080	14,412	46,492
(10) Expenditure increase caused by price rise (1950 to 1960)	54,935	24,679	79,614
(11) Expenditure increase caused by program changes (1950 to 1960)*	42,622	-3,828	38,794

Item 3 equals Item 1 multiplied by Item 2.
Item 5 equals Item 3 multiplied by Item 4.
Item 8 equals Item 6 minus Item 7.
Item 9 equals Item 3 minus Item 1.
Item 10 equals Item 5 minus Item 3.
Item 11 equals Item 8 minus Item 9 and Item 10.

*Assumes no change in government efficiency
Sources: (a) U.S. Bureau of the Census
(b) Implicit Price Deflator for state and local government purchases of goods and services: Office of Business Economics, U.S. Department of Commerce

It should be pointed out that the figures in the two tables show changes only in the volume of total expenditures, and that these changes do not necessarily reflect changes in individual programs. It is quite probable that population and price changes have affected different programs in different ways and that, while overall governmental services in New Mexico may have improved during the 1950-60 period, the degree of improvement of particular programs has likely varied considerably, while some services may have actually deteriorated. During this period state and local government spending together rose from $118 million to $283 million, an increase of $165 million. The maintenance of government programs of constant quality in this state during the decade required $126 million, 77 per cent of the increase in state and local outlays. Price increases accounted for $80 million (49 per cent); population growth, for $46 million (28 per cent); the smallest share--$38 million (23 per cent)--was used to broaden and improve services, including the cost of any changes in efficiency which may have occurred, though in our analysis we have assumed no such change. If operations did become more efficient between 1950 and 1960, then the money needed to maintain the level of services in the face of inflation and population growth was less than indicated, so that the residual remaining for program improvements was greater than indicated. However, if the opposite was true and inefficiency increased during the decade, then the funds needed to maintain services were larger than indicated, while those left for program improvements were smaller.

As Table I shows, state expenditures alone increased $130 million between 1950 and 1960--from $81 million to $211 million. Population growth during this period required an increase of $32 million, and price increases required an increase of $55 million just to maintain programs at comparatively constant levels. It is interesting to note that program improvements accounted for a larger portion of the state increase than did population changes: population and price increases took 25 and 42 per cent respectively of the enlarged spending; $43 million, or 33 per cent of the State's increase for the decade, apparently went to raise and broaden program levels.

While state services apparently improved and expanded significantly between 1950 and 1960, local-government services moved in the opposite direction, although local expenditures increased $35 million--from $37 million to $72 million. Population changes required an increase of $14 million; price changes accounted for $25 million. Had local governments maintained a constant quality in their programs, expenditures would

have had to increase $39 million. The added spending of only $34 million suggests that local services were narrow and of a deteriorating quality.

Study of data showing the financial requirements needed to maintain government programs of constant quality and scope help us understand the forces that have pushed public expenditures upward. The technique employed in Table I is the first in a set of tools that should assist public officials to determine what level of public spending is needed to maintain services in the face of rising prices and an expanding population, helping them also realistically to evaluate plans to expand and improve such programs. In addition, it specifically introduces questions related to governmental efficiency which should prompt officials to develop techniques for measuring the efficiency.

TABLE II

DISTRIBUTION OF FACTORS
AFFECTING CHANGES IN GOVERNMENT EXPENDITURES
New Mexico, 1950 to 1960
(dollar figures in thousands)

	State Government		Local Government		State & Local Total	
	Dollars	Per Cents	Dollars	Per Cents	Dollars	Per Cents
Total Increase	129,637	100	35,263	100	164,900	100
Changes caused by:						
Population growth	32,080	25	14,412	41	46,492	28
Price increases	54,935	42	24,679	70	79,614	49
Program improvements	42,622	33	-3,828	-11	38,794	23

Source: Table I

II

ECONOMIC AND SOCIAL INFLUENCES

Although we should now understand better the role that population growth occupies in the public-finance picture, it is essential to be familiar, at least generally, with (1) the effects of economic development upon government expenditures, and (2) with the way in which such development also influences population expansion. It would then be valuable to examine the changing distribution, the composition, and the social characteristics of our population, and inquire how these changes also affect the level of public expenditures.

ECONOMIC GROWTH

From one point of view economic growth may have been the primary stimulant behind both population expansion and increased public expenditures, as well as public revenues. Although a large portion of New Mexico's population increase has been derived from natural gains--births less deaths--a significant number of persons have migrated into New Mexico because of the opportunities offered here for economic advancement. The population expansion brought on by economic growth is probably the most important aspect of economic development in relation to public finance--particularly, expenditures. But other aspects of economic growth also affect the level of public outlays: the greatly increased variety and extent of government licensing, inspection, and regulation; increased needs to protect property; additional facilities for handling legal proceedings; and the need to expand the large variety of government functions related to business activity, from issuing corporation charters to collecting business taxes.

We must not lose sight of the fact that in large part the public revenues needed to support increased public expenditures are obtained from expanded economic activity. We should remember that in a predominately free-enterprise economy governmental revenues are derived from private incomes. It is for this reason that those persons concerned with government finance are also vitally interested in the growth of the private economy and of private incomes.

POPULATION CHANGES

Population changes are normal developments--whether good or bad--and can have a marked effect upon public finances. We have indicated the effects upon expenditures in terms of the total number of persons in New Mexico and particularly in terms of the increased number of persons here. While population growth itself has exerted a major influence upon the growth of state and local expenditures, the changing distribution, composition, and character of the population have undoubtedly been influences of considerable weight. Although frequently we cannot measure the effects of such changes, we do need to understand their nature.

At least since 1940 New Mexico has been among the most rapidly growing states in the country. During the 1940-1950 decade the State's population expanded 28 per cent; during the 1950-1960 decade a 40-per cent growth occurred. Percentage changes are somewhat impersonal and hard to visualize, so that it is easier to grasp the magnitude of population growth in New Mexico when

we realize that there were only slightly more than 500,000 persons here in 1940 but that during the next 20 years 400,000 additional persons arrived. The terrific strain that such population expansion places upon the public purse is obvious.

While the number of people within the boundaries of New Mexico has increased enormously, that increase has not been spread evenly throughout the State. Several counties have lost population; also, population changes within counties have been unevenly divided between rural and urban areas. The public-finance problem has been aggravated by the fact that some counties have been gaining inhabitants at the same time that others have been losing them. Between 1950 and 1960 while the State's population expanded 40 per cent, 16 counties lost, while the 16 others gained citizens. Some losses were as large as 38 per cent of the population of an individual county.

While most people are aware of the demand for more public money in rapidly growing areas, we sometimes do not realize that on a relative basis government costs in areas of declining population are often higher than those in the other areas. Actually, in declining areas a significant gap is quite likely to develop between expenditures and revenues. It is almost a "law" of public finance that expenditures increase much faster than they decrease. In declining areas governmental services are apt to remain fairly constant even though inhabitants may be leaving in significant numbers. Only after a considerable time are outlays likely to follow population size downward. Also, the local revenue base is pretty sure to dwindle at least at the same rate as the population, but at a faster rate than expenditures. Thus there develops a critical gap between revenues and expenditures.

URBANIZATION

A cursory examination of population changes on a statewide or county basis may ignore the movement of persons from rural to urban centers. The urbanization of New Mexico has been one of the most important factors contributing to rising governmental costs. The situation is neither unusual nor unique, but instead parallels a trend that has been true--and will likely continue to be true--throughout the nation. While describing the rapid statewide population growth of the 'Fifties, we must point out the important fact that all of this growth took place in New Mexico's urban areas. From 1950 to 1960 such areas grew 87 per cent, while rural sections had 1 per cent fewer people at the end of the decade than at its beginning. The loss of approximately 4,000 people in the rural population (based upon the old "urban" definition) indicates a substantial population movement. This 4,000 decrease was in addition to a net loss instead of a net gain usually resulting from "natural processes."

The urbanization of New Mexico has proceeded rapidly since 1940, when about one third of our population was considered urban, and only eight counties had at least 50 per cent of their population living in urban surroundings. By 1950 almost half of the State's population was urban, and 11 counties were more than half urbanized. Ten years later, in 1960, almost two thirds of all New Mexicans were living in urban areas, and 17 counties were more than half urbanized.

The combination of a relatively large land area and a relatively small population has made New Mexico one of the most sparsely settled states in the nation. This state is the fourth largest of the 48 contiguous states, but ranks only 37th (in 1960) in terms of total population. The density of population here is approximately 7.8 persons per square mile. While this figure is similar to that of other Rocky Mountain states, it is far below the comparable measure for other sections of the country. The density varies considerably among New Mexico counties with a high of 225 persons per square mile in Bernalillo county and a low of 0.4 persons per square mile in Catron county. Twenty-three counties have fewer persons per square mile than the state average. Although the current density is still relatively low, it is now almost 75 per cent greater than it was in 1940.

Although the major portion of the land area of New Mexico is rural, the major share of the population lives in a relatively few urban communities. The result of this situation is that government in New Mexico operates in a few large units and a great number of very small units. The trend for the coming decade appears to be that the larger urban areas will expand at a faster rate than the State as a whole, but that the rural areas will continue to decline slowly and that some rural communities may cease to exist.

The changes in the pattern of habitation have directly affected the costs of state- and local-government services. A rural, widely scattered population living under almost isolated conditions, or in relatively small communities, requires considerably fewer public services and facilities (with resulting lower costs) from state and local governments than do areas with a high degree of population concentration. In an area where the major portion of the population lives in single-family groups or in small communities, governments provide relatively little of the following services: recreation, planning and zoning, sani-

tation and water facilities, fire and police protection, street paving and lighting, etc.; yet virtually all of these items must be provided in densely settled urban areas. Nevertheless, though a specific number of people living in a thinly settled area require smaller outlays of public funds than the same number concentrated in an urban area, certain items are relatively more expensive to provide in the former situation than in the latter. For example, the maintenance of a large number of very small schools tends to be more expensive than having the same number of pupils in a few larger systems. Also, it is probably more expensive to construct and maintain many miles of roads between or among many small communities than fewer miles of road connecting a more limited number of larger cities and towns.

CHANGING AGE COMPOSITION

We have already emphasized that the changing composition of the population directly affects public outlays. Our broad examination of governmental expenditures in New Mexico indicates an apparent improvement in the scope and quality of public services. However, it is likely that the greater-than-average growth of particular segments of the population has not allowed for as much improvement or broadening of services as our total figures indicate. Actually, that growth brought about a deterioration of some services.

During the last decade the fastest growing age groups have tended to be those that require a relatively large share of governmental services (and expenditures), and the outlook for the future is that these groups will continue to grow faster than the population as a whole. The 65-and-over and the 6-to-13 groups are readily identifiable as the recipients of a relatively large share of public services, the first group participating in state old-age welfare programs and the second requiring broad educational services and facilities. Although the proportion of the State's population over 65 (5.4 per cent) is considerably smaller than the national proportion (9.2 per cent), this group has increased faster during the last 20 years than any other and will probably continue to do so during the coming decade, exerting increasing pressure upon public expenditures. The grade-school population of New Mexico grew faster between 1950 and 1960 than even the over-65 segment, so that today a larger portion of our population is made up of school-age children than is true in any other state in the nation. There is no indication that this segment of New Mexicans will diminish in importance in the future. The fact partly explains why, although per capita expenditures for education are relatively high here, we are still acutely plagued by shortages of educational facilities and the funds with which to provide them.

OTHER FACTORS AFFECTING GOVERNMENTAL EXPENDITURES

A variety of factors other than population change and growth influence the level of governmental expenditures. At least three others can be identified as (1) changing attitudes of society towards governmental responsibilities, (2) attitudes brought by migrants to New Mexico regarding the appropriate level of governmental services, and (3) efforts of the federal government to establish minimum standards for selected programs of national concern. Although we are fairly certain that these factors have contributed to the constant growth of state and local spending in New Mexico, at this time it is possible to present only in broad outline the manner in which they have affected public outlays. A yardstick for measuring, even approximately, what these factors represent in terms of dollars is not available.

The changing attitude of the population in regard to the proper role of government--federal, state, and local--is likely to increase expenditures of governments substantially for a long time. During recent years the attitude toward government programs has been one of expecting enlarged areas of public responsibility. Changes in attitudes occur so slowly, yet widely in spite of many obstacles, that they are virtually impossible to see from year to year. It is only from one five-year period to the next that the effects of changing attitudes make themselves apparent, stemming from a variety of forces within the country, a few of which can be isolated and examined, at least in a general way.

Increased incomes and a rising standard of living affect government expenditures variously. There appears to be a considerable degree of correlation between improved living standards and requirements for improved and additional educational facilities, facilities that, of course, require greatly increased governmental spending. Although it is difficult to determine cause and effect, we can see the circular situation starting with rising educational attainment levels leading in turn to higher income levels, which--as the wheel revolves--develop a desire for additional education. Even if we could determine the beginning of the circle, growing educational costs would still be with us.

As living standards rise, people appear to expect governments to improve program standards and facilities accordingly; for example, as the quality of housing is bettered, a trend toward more adequate school plants also develops; as the

appreciation of art and music grows, expectations arise that government will provide the museum-art gallery and the concert hall. As the economic well-being of specific segments of the population is intensified, there appears to be an accompanying expectation that government will assume the responsibility for improving the standard of living for other less fortunate groups.

The growing complexity of society, in which virtually every population segment depends to an increasing extent upon every other, requires that governments be constantly broadening their activities. To insure the continued efficient operation of this complex social machinery, with no one group taking unfair advantage of any other, with all groups assured of equal opportunities, and with any functional breakdown rapidly repaired or replaced, requires greatly expanded government services. Although higher standards of living have demanded increased expenditures from all levels of government, improved economic conditions have also provided the means of making these expenditures. Not only have increased incomes produced larger and larger revenues for public purposes, but also they have increased the portion of personal income remaining after necessities and a variety of luxury items have been provided for. On the whole the population has appeared willing to release increasingly larger portions of personal income for public purposes.

MIGRATION

Although the Bureau of the Census reports that migration played a relatively minor role in the population growth of New Mexico during the 1950-1960 decade, the number of persons who moved into the State during the decade was probably much greater than the Census figures show. The Bureau of the Census measures "net migration"--the number of people moving into a state during a specific decade minus the number moving out during the same decade. If new New Mexicans had equalled in number those who moved out, net migration would have been zero; but the replacement of native New Mexicans with out-of-staters would still have caused a decided change in population characteristics. The Census reports that of the 270,000-person increase in the State between 1950 and 1960 net migration accounted for only 50,000. It is our judgment, and data to be released later this year by the Bureau of the Census can be used to provide a definite measure, that a significant portion of the population that left our 16 depressed counties during the 'Fifties also moved entirely out of New Mexico (many others, of course, moved from one county to another within the State). Therefore, although net migration for the decade amounted to 50,000 persons, the actual number who moved into New Mexico was probably much greater. It is reasonable to assume that a significant portion of these new people came from areas that provided a higher level of government services--at least for particular programs--than that which prevailed here. Coming into New Mexico, these persons demanded governmental services equal to the ones provided "at home," but of a higher quality than the native New Mexican had received. To satisfy these demands, various levels of government have been under pressure to spend larger and larger sums.

FEDERAL GOVERNMENT

Policies of the federal government have acted to broaden and expand state and local programs in New Mexico, having a marked effect upon the volume and pattern of governmental outlay. In general, Washington has adopted programs of financial assistance to state and local governments to insure certain nation-wide minimum standards for specific programs. One important result has been a decided expansion in the volume of funds spent by states and local governments.

Federal funds are usually provided to lower levels of government on a "matching" basis, not necessarily an equal dollar-for-dollar basis. The general formula is for the state or local government to spend a specific amount of money for a certain program and for the federal government then to provide an additional amount for that same program. While total state and local expenditures have been increased by this device, the pertinent questions concern resultant changes in the use and quantity of funds these governments raise from their own sources. Certain questions concerning the effect of federal aid upon the financial pattern of states and local governments are automatically posed, although much research will have to be conducted before final answers are available.

The influence of federal funds upon state and local financial patterns appears to take two forms: (1) a shift occurs in state and local government funds from one activity to another because of the availability of federal funds, and/or (2) the total volume of state and local funds spent because of the availability of federal dollars either increases or decreases. Although we feel reasonably sure that a shift of revenues does occur when federal "matching funds" are made available, it is most difficult to determine either the direction or the magnitude of that shift; for example, assuming the availability of federal funds on a matching basis for old-age assistance, a state government may take one of two actions: (a) concentrating more of its own funds upon certain programs than it had previously, in order to obtain maximum federal aid for those programs, or (b) spending a

relatively smaller amount from its own funds and allowing federal monies to round out the sum necessary for minimum programs. The likely result of the first action would be that there would be less state money available for those programs not eligible for federal aid, while under the second action more state money would probably be available for such programs.

The second influence concerns the total volume of state and local money spent because federal matching funds are available. The same two alternative steps can be taken: (a) the state could maintain a high level of expenditures for all programs, but in order to obtain maximum federal aid would increase its expenditures for those programs for which there would be matching funds; (b) the state would reduce its contribution to such "matching-funds" programs, thereby maintaining minimum programs only.

In addition to questions regarding the financial effects of federal matching funds upon state and local programs, other questions relate to the degree to which state funds are committed in a direction desired by the federal government rather than in directions initiated by and preferred by state and local officials. Any adequate measuring of the effects of federal government assistance upon government programs in New Mexico will require much concentrated research--research which should be given serious attention by state and local officials and citizens.

CONCLUSIONS

All too often discussions of governmental finances center upon the questions regarding how much money is available, how much money is needed, and where or how additional revenues may be obtained. If state and local governments are to provide the quantity and quality of services desired by their citizens, they must analyze the needs of those citizens for particular programs. It is also essential that these governmental bodies evaluate the services they are now providing and determine both current and future needs and the volume of expenditures necessary to satisfy them. These governments should then be able to decide whether their resources are adequate to such needs. If not, then officials should be able (1) to find additional revenues or (2) to divide the funds that are available among competing demands to the best advantage of the citizenry, deciding, for example, whether the return to the state would be greater in added miles of highway or in better-educated people. It is also vitally important that we develop methods of evaluating the level of efficiency with which our government spends public funds. A lack of efficiency can undermine the very best-conceived plans any group of officials can set up.

THE DEGREE OF U. S. ECONOMIC RECOVERY

Margaret Meaders

New Mexico fortunately almost entirely avoided three of the nation's four postwar depressions and was a trifle slow moving into the most recent one. That the State is now trailing the country in an economic turnabout is not so fortunate; but there is always hope that we will emulate the nation and reassert our economic energy within a reasonably short time. Therefore, the real strength of the present U. S. recovery is important to all of us.

Expert economists and business publications agree that the national economy is showing renewed strength and vitality, reversing the "contraction" which showed up following the May 1960 peak. Some observers are more cautious than others, but recent evaluations appearing in the August Survey of Current Business (U. S. Department of Commerce) and the July-August Business in Brief (The Chase Manhattan Bank) aptly express the consensus:

"A vigorous upswing in output in the April-June quarter initiated a recovery from the mildest of the four postwar recessions. The GNP advanced at an annual rate of $15 billion from the first quarter to a new high of $516 billion in current dollar terms. . . .

"The second quarter recovery in the GNP featured a marked shift from inventory liquidation to accumulation, an upturn in the demand for automobiles and residential construction, and continued expansion in government purchases and consumer services. . . . The increase in employment was accompanied by a substantial rise in the flow of personal income, which rose from the first quarter by over $8 billion to an annual rate of $413 billion in the second. Most of this increase was in wages and salaries and was attributable to higher employment, but government transfer payments were also up, reflecting initial disbursements under the temporary unemployment insurance program." (Survey of Current Business)

"The business recovery is proceeding in good fashion. Industrial production is almost back to its pre-recession peak. Personal income is running 2 1/2% ahead of a year earlier.

"A large part of the rapid turn-about in production is explained by the end of inventory liquidation. A second factor is that Federal, state and local government spending has increased at a $2 billion annual rate each quarter during the past year. In addition, moderate increases have been registered by retail sales and housing in recent months." (Business in Brief)

In July AT&T's Business Conditions observed that, while both prices of certain sensitive industrial commodities and the size of business loans at banks declined in June, the economic recovery had achieved such momentum that this force had become in itself an impetus for further gains. Business Week is among the more cautious journals. The July 15 issue declared that, lacking a continuing buildup, "the economy has stuttered."

All of these comments were based upon midyear showings. July brought further improvements which, though dominated by seasonal movements among broad economic measures, nonetheless pushed most of those measures to levels not only higher than June's but also topping second-quarter averages.

DETAILED MIDYEAR SIGNALS

By the end of June some indicators actually stood at pre-recession highs, as pointed out in Business Review (Federal Reserve Bank, Dallas) in its August issue, which said further, "The force of instability dominated the economic picture through the end of 1960, but after rapid correction faded in the second quarter 1961."

Here is how matters stood at the midyear:

1. Inventory liquidation had reduced business stocks to levels more consistent with existing sales patterns. More than that, rising sales had actually brought on inventory accumulation, especially among nondurable-goods firms. Business Week warned, however, that the impact of such change in inventory policy seemed to have been "just about exhausted by early June."

2. Construction activity had strengthened, with total new construction in June reaching an annual rate estimated by the Dallas Federal Reserve Bank at $56.5 billion, $800 million above the May rate, and with July bringing a new record rate of close to $59 billion. A rise in housing starts had reversed an extended marked decline, with the Department of Commerce in July estimating 1961 starts at 1,275,000 and the Dallas FED putting them at 1,374,000; new home-buying plans were also up a little over those a year ago; and public construction was proving even more important.

3. Military expenditures were exerting a strong influence for recovery. January-through-May contracts placed by the Department of Defense for procurement items, research, and construction totaled 11 per cent above such contracts for the same period of 1960. Those for fiscal 1959 had been $46.8 billion; those for the second quarter of 1961 were at an annual rate of $48.8 billion.

4. Other federal programs and policies were packing a sizeable wallop. Unemployment compensation payments rose fast, as the Temporary Extended Unemployment Compensation Program became a reinforcing factor, with broad direct influences--among them, benefits to the steel and the automobile industries. Government rates of spending were rising rapidly--federal, from $51.8 billion in the first quarter 1960 (and $54.1 billion in the third quarter 1959) to $56.5 billion in the second quarter 1961; state and local, from $45.0 billion to $51.0 billion. The U.S. budget position slipped back again from surplus to deficit. And, as Business Review has pointed out, attempts to stimulate capital spending included both a "multi-faceted program designed to lower long-term interest rates and also continued and aggressive policies of ease on the part of the Federal Reserve System." The FED's purchases of securities outside the bill area well may have helped push up corporate and municipal borrowing in its recent sharp rise, and policies regarding yields on short-term securities plus strong affirmative Administration statements about maintaining the price of gold undoubtedly helped stop gold outflows.

5. Wholesale and retail prices had achieved a fair stability, with small rises in costs of services being largely offset by decreases in food prices.

6. A better buying climate had developed, though the consumer mood remains cautious so that sales by auto, furniture-and-appliance, and building materials-hardware dealers have not risen as hoped. As Business Week says, consumer expenditures have been going up steadily but "excruciatingly" slowly.

7. Industrial production has strengthened, with the FED's seasonally adjusted productivity index (1957 = 100) showing an 8-per cent rise since February's low. Manufacturing shipments in June were 8 per cent over January's; new orders were up 9 per cent.

8. Employment rose in each month of the second quarter, for a total gain of nearly a million nonfarm workers, with the June total setting a new record of 68,706,000. AT&T puts the improvement in manufacturing employment first among all the many recent significant economic developments.

FORECASTS

A Department of Commerce and SEC report indicates that business plans for new plants and equipment will cost about $34.5 billion this year, 3 per cent under 1960 figures: first quarter annual rate--$33.8 billion; second quarter--about the same; third quarter--around $34.6 billion; fourth quarter--approximately $35.5 billion.

Business Conditions believes that "housing sales will improve during the year but will not be an outstanding contribution to the general upturn." A survey made by the Research Center of the University of Michigan suggests that auto sales will not reach full swing until the new models are out, since "an unusually large proportion of persons planning to buy new cars intend to wait for the fourth quarter."

At mid-July Business Week said:

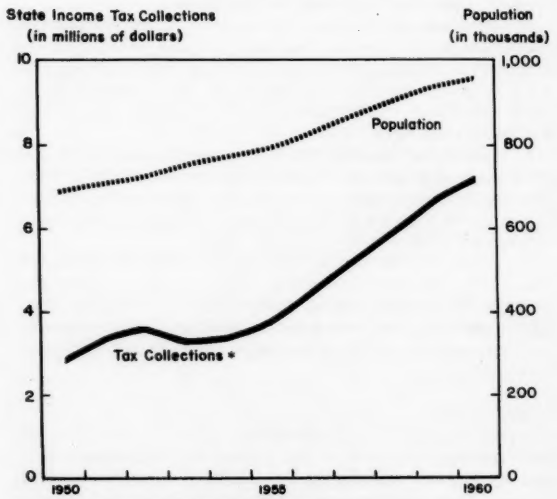
"The outlook is for slow growth during the summer, faster growth during the fall; for a gradual ebbing of recession-caused restraint on the part of consumers--and for a possible boom (particularly if political or international developments spark a much faster rate of government outlay). But, from the standpoint of consumer spending, another boom trend will be restrained by some underlying structural problems: the slow increase in households, heavy stocks of consumer durables, and the rapid rise in the cost of services."

According to the latest survey of the panel of Western Business Forecast, about 77 per cent of that panel expect third-quarter business in the West to equal or surpass that in the third quarter last year. In Colorado, Wyoming, and New Mexico, 15 per cent of the members look for third-quarter levels to approximate corresponding levels in 1960; 51 per cent expect improvement of from 1 to 10 per cent; 12 per cent look for gains ranging from 11 to 20 per cent; 2 per cent think business will be from 21 to 30 per cent stronger; and 1 per cent enthusiastically hopes for a 31-to-41 per cent gain. All in all, 81 per cent of the panel members in these three states believe business will prove to have been equal to or better than it was during 1960's third quarter.

CHART-OF-THE-MONTH

INCREASES IN POPULATION & STATE INCOME TAX COLLECTIONS

New Mexico, 1950 - 1960



*Includes personal and corporate tax collections

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